DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: August 17, 2009 **BILL NUMBER:** SB 813
POSITION: Oppose **AUTHOR:** C. Kehoe
SPONSOR: California Coalition for Rural Housing

BILL SUMMARY: Community Development: Grant and Loan Securitization

This bill would require loans and grants under the Department of Housing and Community Development's (HCD) programs that include "self-help" housing assistance to include assistance to pay the difference between project costs and the appraised value of the homes. Repayment of the loans would be made upon resale of the homes, and would be limited to the difference between the initial appraised value and the appraised value at the time of resale. The provisions of this bill would only apply to the counties of Butte, Merced, Riverside, Santa Clara, Sonoma and Yuba, and would sunset on January 1, 2014.

FISCAL SUMMARY

The Department of Housing and Community Development (HCD) would incur increased costs of approximately $150,000 annually and 1.0 position to administer the deferred payment loans. There would also be one-time staff costs associated with adopting regulations for the deferred payment grants and loans.

This bill would expose HCD to a loss of program funds, as the bill creates an unsecured second mortgage and repayments may not materialize.

COMMENTS

The Department of Finance opposes this bill for the following reasons:

- The state should not be providing financing for housing projects that are not financially sound. This bill seeks to provide state financing that exceeds the appraised value of the housing. HCD is not likely to receive repayments because of the uncertainty of the recovery of the real estate market.

- The state should not bail out non-profits that bought property for housing projects on speculation.

- The bill does not require the developers to try to cut costs of the project before qualifying for the deferred loans, which could further drive up the cost of the housing above the appraised value.

- The bill would essentially authorize subprime loans that are not fully backed by the value of the property, which can lead to increased foreclosures. Homeowners that need to sell their homes due to changed circumstances may have insufficient equity to pay for the cost of sale (i.e. real estate commissions and closing costs).

Analyst/Principal (0740) K. Amann	Date	Program Budget Manager Mark Hill	Date
Department Deputy Director			Date
Governor's Office:	By:	Date:	Position Approved_______ Position Disapproved

AUTHOR	AMENDMENT DATE	BILL NUMBER
C. Kehoe	August 17, 2009	SB 813

• **ANALYSIS**

A. Programmatic Analysis

Existing law establishes several affordable ownership housing programs within the Department of Housing and Community Development (HCD), including CalHOME, Building Equity and Growth in Neighborhoods, Home Investment Partnerships Program and the Joe Serna Jr. Farmworker Housing Grant Program. Each of these programs includes opportunities for "self-help" housing, where a program recipient can participate in the construction of the home in lieu of a cash down payment.

This bill would:

- Require loans and grants under the CalHOME, Building Equity and Growth in Neighborhoods, HOME Investment Partnerships Program and Joe Serna Jr. Farmworker Housing Grant programs, where recipients use sweat equity to obtain funding for affordable homeownership, to include assistance to pay the difference between construction and acquisition costs and the appraised value of the home if needed so that the homeowner can qualify for the permanent financing payment.

- Specify that repayment of the deferred payment loans would be made upon transfer of title, or when the property is no longer owner-occupied, and would only be repaid out of the difference between the initial appraised value and the appraised value at the time of transfer or change from owner-occupied status.

- Specify that the deferred payment loans would not be considered as part of the loan-to-value ratio for mortgage financing, and that HCD loans would be subordinate to other liens.

- Limit the deferred payment loans to existing contracts with housing sponsors, and provide for a pilot program for the counties of Butte, Merced, Riverside, Santa Clara, Sonoma and Yuba.

- Authorize HCD to use other forms of securitization that achieve the goal of the bill.

- Sunset on January 1, 2014.

Discussion: According to the author's office, declining home values have made some self-help housing projects financially infeasible because the final project cost exceeds the appraised value, leaving the self-help homeowner unable to obtain a mortgage. There are some projects where the self-help housing sponsor has purchased property and obtained a commitment from one of the HCD housing programs, but construction cannot begin because of lack of permanent financing.

This bill seeks to address this problem by requiring HCD to provide "gap financing" for self-help housing projects where the appraised value of the housing is less than the costs of the project, including land, construction, the value of the homeowner's sweat equity, and financial assistance through HCD programs. The gap financing would be through an unsecured second mortgage, payable upon resale of the property. However, repayment would be limited to the difference between the appraised value at the time of construction and the appraised value at the time of resale, which would put HCD at risk of not fully recovering its loan if home prices have not increased sufficiently. This would reduce HCD's capacity to make new loans and grants with recycled funds. The amount of risk is uncertain, depending upon when, and to what extent, home prices recover.

AUTHOR	AMENDMENT DATE	BILL NUMBER
C. Kehoe	August 17, 2009	SB 813

HCD indicates that a number of self-help housing projects that have funding commitments from HCD bond programs may not be able to secure permanent financing because of depressed property values. HCD estimates that there may be up to 200 housing units statewide that are at risk of not being completed. Housing sponsors have indicated that these units may need additional financing of $10,000 to $30,000 per unit.

B. Fiscal Analysis

The Department of Housing and Community Development (HCD) would incur increased costs of approximately $150,000 annually and 1.0 position to administer the deferred payment grant and loan provisions of this bill. There would also be one-time staff costs associated with adopting regulations for the deferred payment grants and loans. HCD estimates these costs to be approximately $120,000 and 4.0 partial positions for 6 months, although Finance believes these costs may be overstated. There is no appropriation in the bill for start-up costs, which could delay HCD's ability to implement the program.

The loans created under this bill would be unsecured until such time that the property values for the loans exceeded the amounts of the first mortgages. Thus, this bill would expose HCD's loans to significant financial risk, reducing capacity for program activity with recycled loan funds in the future.

Code/Department Agency or Revenue Type	SO LA CO RV	(Fiscal Impact by Fiscal Year) (Dollars in Thousands) PROP 98	FC	2009-2010	FC	2010-2011	FC	2011-2012	Fund Code
2240/HCD	SO	No	C	$270	C	$150	C	$150	0813

Fund Code	Title
0813	Self-Help Housing Fund